

ORIGINAL  
OPEN MEETING



0000043690

MEMORANDUM

RECEIVED

410

2006 FEB 24 A 11: 21

TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION  
DOCUMENT CONTROL

DATE: February 24, 2006

RE: CHANGE TO USE OF MONTHLY THREE-MONTH COMMERCIAL FINANCIAL PAPER RATE AS A SUCCESSOR RATE FROM THE MONTHLY THREE-MONTH COMMERCIAL NON-FINANCIAL PAPER RATE FOR CERTAIN PURCHASED GAS ADJUSTOR BANK BALANCES AND CUSTOMER DEPOSIT ACCOUNTS (DOCKET NO. G-00000C-06-0069)

For a number of years, certain utilities have used the Monthly Three-Month Non-Financial Commercial Paper Rate ("Current Rate") as the interest rate for their purchased gas adjustor bank balances and, for one utility, customer deposits. The Commission approved this rate for use in Decision Nos. 61225 (October 30, 1998) and 67433 (December 3, 2004). This rate had been regularly published by the Federal Reserve up until last year. But problems with the Current Rate started in 2005.

In February 2005, the Current Rate was not published for that month. At the time, the Commission advised utilities using the Current Rate to simply apply the previous month's rate for that one month (February 2005) where the Current Rate was not published. From March 2005 through November 2005, the Current Rate was published every month. Since late November 2005, however, the Federal Reserve H.15 Statistical Release has not reported any new information for the Current Rate, meaning that there is no published rate for the Current Rate for the months of December 2005 and January 2006. It now appears likely that any changes to the Current Rate will no longer be published.

Staff has contacted the Federal Reserve several times inquiring about the future availability of the Current Rate, but the response has been limited to indicating that there has been no information available to report since late November 2005 about the Current Rate.

In light of these circumstances, the question is raised regarding what interest rate utilities should use on a going forward basis given the unavailability of the Commission-ordered Current Rate. While the Federal Reserve publishes a wide variety of interest rates, Staff believes that in this case it would be best to replace the current rate with an interest rate that is very similar, thus avoiding issues regarding impacts on ratepayers of changing to a different interest rate. A review of interest rates indicates that the Monthly Three-Month Commercial Financial Paper Rate ("New Rate") is a very similar rate. There have been no problems with the New Rate not being published. Generally, the financial paper rates show much higher volume activities than the non-financial paper rates, so it appears that switching to the New Rate would minimize the potential for these types of difficulties in the future.

THE COMMISSION

February 24, 2006

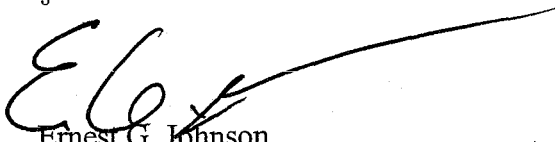
Page 2

On average, since the Current Rate and the New Rate began being published in 1997, the average difference between the two rates is 0.027 percent, with the New Rate being slightly higher. The largest monthly difference showed the New Rate to be 0.09 percent higher, but for several months the New Rate was 0.01 percent lower. So, in a typical month, if the Current Rate was, for example, 4.20 percent, the New Rate would be 4.22 or 4.23 percent. While not exactly the same, Staff believes that the average differential between the two rates is so small that it would have a very minimal impact on the calculation of PGA bank balance interest amounts or customer deposit amounts. For example, on a hypothetical \$10,000,000 PGA bank balance, a 0.027 percent difference in the interest rate would result in a total interest difference of \$226 for a given month.

Utilities which use the current rate for calculating interest on their PGA bank balances include: Southwest Page Propane Division, UniSource Gas ("UNS Gas"), Energy West Corporation ("Energy West"), Duncan Rural Services Corporation ("DRSC"), and Graham County Utilities ("GCU"), as adopted in Decision Number 61225 (October 30, 1998). Duncan Valley Electric Cooperative ("DVEC") uses the current rate for calculating interest on customer deposits, as adopted in Decision Number 67433 (December 3, 2004). One gas utility, DRSC, is currently before the Commission with a general rate proceeding where a different interest rate may be proposed than the New Rate.

Given the disappearance of the Current Rate that the Commission adopted for use on the aforementioned PGA bank balances and customer deposits, Staff believes it is necessary to adopt the New Rate so utilities will have an interest rate to apply. Staff believes that the New Rate is a good replacement rate, as the average difference between it and the Current Rate is very small. Staff recommends adoption of the Monthly Three-Month Commercial Financial Paper Rate for application to the PGA bank balances of Southwest Page Propane Division, UNS Gas, Energy West, DRSC, and GCU, and the customer deposits of DVEC. Staff further recommends that if, in the current rate proceeding for DRSC, Staff is proposing a specific interest rate instead of the New Rate, that the specific interest rate adopted in that case replace the New Rate being adopted in this proceeding on the effective date for new rates and charges designated in that rate proceeding.

Since this case is amending previous orders approving the Current Rate to the New Rate, Staff believes that this order can be approved as amending those previous orders under A.R.S. § 40-252.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:RGG:lhmvJG

ORIGINATOR: Robert Gray

1                               **BEFORE THE ARIZONA CORPORATION COMMISSION**

2       JEFF HATCH-MILLER  
          Chairman  
3       WILLIAM A. MUNDELL  
          Commissioner  
4       MARC SPITZER  
          Commissioner  
5       MIKE GLEASON  
          Commissioner  
6       KRISTIN K. MAYES  
          Commissioner

7  
8       IN THE MATTER OF A CHANGE TO USE )  
9       OF THE MONTHLY THREE-MONTH       )  
10      COMMERCIAL FINANCIAL PAPER RATE    )  
11      AS A SUCCESSOR RATE FROM THE       )  
12      MONTHLY THREE-MONTH                )  
13      COMMERCIAL NON-FINANCIAL PAPER     )  
14      RATE FOR CERTAIN PURCHASED GAS     )  
15      ADJUSTOR BANK BALANCES AND        )  
16      CUSTOMER DEPOSIT ACCOUNTS        )

DOCKET NO. G-00000C-06-0069

DECISION NO. \_\_\_\_\_

ORDER

15      Open Meeting  
16      March 15 and 16, 2006  
17      Phoenix, Arizona

18      BY THE COMMISSION:

FINDINGS OF FACT

19           1.     Southwest Gas Corporation ("Southwest"), Southwest Page Propane Division,  
20      UniSource Gas ("UNS Gas"), Energy West Corporation ("Energy West"), Duncan Rural Services  
21      Corporation ("DRSC"), and Graham County Utilities ("GCU") are engaged in providing natural  
22      gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation  
23      Commission. Duncan Valley Electric Cooperative ("DVEC") is engaged in providing electricity  
24      service within portions of Arizona, pursuant to authority granted by the Arizona Corporation  
25      Commission.

26           2.     For a number of years, certain utilities have used the Monthly Three-Month Non-  
27      Financial Commercial Paper Rate ("Current Rate") as the interest rate for their purchased gas  
28      adjustor bank balances and, for one utility, customer deposits.

1           3.     The Commission approved this rate for use in Decision Nos. 61225 (October 30,  
2 1998) and 67433 (December 3, 2004).

3           4.     This rate had been regularly published by the Federal Reserve up until last year, but  
4 problems with the Current Rate started in 2005.

5           5.     In February 2005, the Current Rate was not published for that month. At the time,  
6 the Commission Staff advised utilities using the Current Rate to simply apply the previous month's  
7 rate for that one month (February 2005) where the Current Rate was not published. From March  
8 2005 through November 2005, the Current Rate was published every month.

9           6.     Since late November 2005, however, the Federal Reserve H.15 Statistical Release  
10 has not reported any new information for the Current Rate, meaning that there is no published rate  
11 for the Current Rate for the months of December 2005 and January 2006. It now appears likely  
12 that any changes to the Current Rate will no longer be published.

13          7.     Staff has contacted the Federal Reserve several times inquiring about the future  
14 availability of the Current Rate, but the response has been limited to indicating that there has been  
15 no information available to report since late November 2005 about the Current Rate.

16          8.     In light of these circumstances, the question is raised regarding what interest rate  
17 utilities should use on a going forward basis given the unavailability of the Commission-ordered  
18 Current Rate.

19          9.     While the Federal Reserve publishes a wide variety of interest rates, Staff believes  
20 that in this case it would be best to replace the current rate with an interest rate that is very similar,  
21 thus avoiding issues regarding impacts on ratepayers of changing to a different interest rate.

22          10.    A review of interest rates indicates that the Monthly Three-Month Commercial  
23 Financial Paper Rate ("New Rate") is a very similar rate. There have been no problems with the  
24 New Rate not being published. Generally, the financial paper rates show much higher volume  
25 activities than the non-financial paper rates, so it appears that switching to the New Rate would  
26 minimize the potential for these types of difficulties in the future.

27          11.    On average, since the Current Rate and the New Rate began being published in  
28 1997, the average difference between the two rates is 0.027 percent, with the New Rate being

1 slightly higher. The largest monthly difference showed the New Rate to be 0.09 percent higher,  
2 but for several months the New Rate was 0.01 percent lower. So, in a typical month, if the Current  
3 Rate was, for example, 4.20 percent, the New Rate would be 4.22 or 4.23 percent.

4 12. While not exactly the same, Staff believes that the average differential between the  
5 two rates is so small that it would have a very minimal impact on the calculation of PGA bank  
6 balance interest amounts or customer deposit amounts. For example, on a hypothetical  
7 \$10,000,000 PGA bank balance, a 0.027 percent difference in the interest rate would result in a  
8 total interest difference of \$226 for a given month.

9 13. Utilities which use the current rate for calculating interest on their PGA bank  
10 balances include: Southwest, UNS Gas, Energy West, DRSC, and GCU, as adopted in Decision  
11 No. 61225 (October 30, 1998).

12 14. DVEC uses the current rate for calculating interest on customer deposits, as adopted  
13 in Decision No. 67433 (December 3, 2004).

14 15. One gas utility, DRSC, is currently before the Commission with a general rate  
15 proceeding where a different interest rate may be proposed than the New Rate.

16 16. Given the disappearance of the Current Rate that the Commission adopted for use  
17 on the aforementioned PGA bank balances and customer deposits, Staff believes it is necessary to  
18 adopt the New Rate so utilities will have an interest rate to apply. Staff believes that the New Rate  
19 is a good replacement rate, as the average difference between it and the Current Rate is very small.

20 17. Staff has recommended adoption of the Monthly Three-Month Commercial  
21 Financial Paper Rate for application to the PGA bank balances of Southwest Page Propane  
22 Division, UNS Gas, Energy West, DRSC, and GCU, and the customer deposits of DVEC.

23 18. Staff has further recommended that if, in the current rate proceeding for DRSC,  
24 Staff is proposing a specific interest rate instead of the New Rate, that the specific interest rate  
25 adopted in that case replace the New Rate being adopted in this proceeding on the effective date  
26 for new rates and charges designated in that rate proceeding.

27 ...

28 ...

## CONCLUSIONS OF LAW

## ORDER

...

IT IS FURTHER ORDERED that in the current rate proceeding for DRSC, that the specific interest rate adopted in that case replace the New Rate being adopted in this proceeding on the effective date for new rates and charges designated in each of those rate proceedings.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2006.

\_\_\_\_\_  
BRIAN C. McNEIL  
Executive Director

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:RGG:lhmvJG

1 SERVICE LIST FOR:  
2 DOCKET NO. G-00000C-06-0069

3 Mr. Randall W. Sable  
4 Manager, State Regulatory Affairs  
5 Southwest Gas Corporation  
6 5241 Spring Mountain Road  
7 Post Office Box 98510  
8 Las Vegas, Nevada 89193-8510

9 Mr. Doug Mann  
10 Energy West  
11 200 West Longhorn  
12 Payson, Arizona 85541

13 Mr. David Couture  
14 Unisource Energy Services  
15 4350 East Irvington Road  
16 Mailstop OH123  
17 Tucson, Arizona 85702

18 Mr. Jack Schilling  
19 Duncan Valley Electric Cooperative, Inc.  
20 Post Office Box 440  
21 Duncan, Arizona 85534-0440

22 Mr. Russ Barney  
23 Graham County Utilities, Inc.  
24 Post Office Drawer B  
25 Pima, Arizona 85543

26 Mr. Ernest G. Johnson  
27 Director, Utilities Division  
28 Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

Mr. Christopher C. Kempley  
Chief Counsel  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007